BALANCED BUDGET ACT CONFERENCE REPORT/Passage

SUBJECT: **Conference report to accompany the Balanced Budget Act of 1995 . . . H.R. 2491. Motion to concur in the conference report with a further amendment.**

ACTION: MOTION AGREED TO, 52-47

SYNOPSIS: The conference report to accompany H.R. 2491, the Balanced Budget Act of 1995, will cut spending to balance the budget in 7 years, as scored by the Congressional Budget Office (CBO). The bill will also provide a $245 billion middle-class tax cut, $147.6 billion of which will be to provide a $500 per child tax credit effective October 1, 1995. The Congressional Budget Office (CBO) scores the bill as it passed the Senate as follows (in billions of dollars):

Fiscal Year		1996	1997	1998	1999	2000	2001	2002
Outlays (total)	1590	1629	1660	1703	1764	1801	1857	
Discretionary	534	524	518	516	520	516	515	
Mandatory		799	843	881	925	984	1031	1093
Net Interest	257	262	261	262	260	254	249	
Revenues		1412	1440	1514	1585	1665	1756	1861
Deficit		178	189	146	118	100	46	-4 (surplus)

Reconciliation savings by conference report title include the following:

Title I, Agriculture, $12.3 billion (for related debate, see vote Nos. 506, 535, and 537; for nutrition programs, see title XII), including:

- Production Flexibility Contracts will replace the major current commodity programs; these 7-year contracts will provide payment for 85 percent of a farm's contract acreage; farmers will have wide discretion in the crops they choose to plant on 85 percent of their land and will have no restrictions on the remaining 15 percent;

(See other side)

YEAS (52)

Republicans (52 or 98%)		Democrats (0 or 0%)
Abraham	Hutchison	
Ashcroft	Inhofe	
Bennett	Jeffords	
Bond	Kassebaum	
Brown	Kempthorne	
Burns	Kyl	
Campbell	Lott	
Chafee	Lugar	
Coats	Mack	
Cochran	McCain	
Coverdell	McConnell	
Craig	Murkowski	
D'Amato	Nickles	
DeWine	Pressler	
Dole	Roth	
Domenici	Santorum	
Faircloth	Shelby	
Frist	Simpson	
Gorton	Smith	
Gramm	Snowe	
Grams	Specter	
Grassley	Stevens	
Gregg	Thomas	
Hatch	Thompson	
Hatfield	Thurmond	
Helms	Warner	

NAYS (47)

Republicans (1 or 2%)	Democrats (46 or 100%)	
Cohen	Akaka	Inouye
	Baucus	Johnston
	Biden	Kennedy
	Bingaman	Kerrey
	Boxer	Kerry
	Bradley	Kohl
	Breaux	Lautenberg
	Bryan	Leahy
	Bumpers	Levin
	Byrd	Lieberman
	Conrad	Mikulski
	Daschle	Moseley-Braun
	Dodd	Moynihan
	Dorgan	Murray
	Exon	Nunn
	Feingold	Pell
	Feinstein	Pryor
	Ford	Reid
	Glenn	Robb
	Graham	Rockefeller
	Harkin	Sarbanes
	Heflin	Simon
	Hollings	Wellstone

NOT VOTING (0)

Republicans (0)	Democrats (0)

EXPLANATION OF ABSENCE:
1—Official Buisiness
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

- the Conservation Reserve Program will be capped at its present 36.4 million acres; and
- easements bought under the Wetlands Reserve Program will be limited to 15 years.

Title II, Banking, $4.9 billion, including:

- greater flexibility will be given to the Federal Housing Administration in the administration of the Single-Family Assignment Program; and
- certain assisted housing rent adjustments will be reduced.

Title III, Commerce, $15.3 billion, including:

- spectrum will be auctioned.

Title IV, Education, $5 billion, including:

- direct lending will be capped at 10 percent of total new loan volume (for related debate, see vote Nos. 503-504).

Title V, Energy and Natural Resources, $6.2 billion, including:

- the U.S. Enrichment Corporation will be privatized;
- the Federal Helium Program will be terminated;
- oil leasing in the Arctic National Wildlife Refuge will be authorized (for related debate, see vote Nos. 525 and 543);
- the prohibition on prepaying debts owed to the Bureau of Reclamation for irrigation projects will be lifted (see vote No. 538 for related debate);
- hardrock mining law will be reformed (for related debate, see vote Nos. 540, 545, and 549); and
- incentives will be provided for Outer Continental Shelf oil and gas production (see vote No. 553 for related debate).

Title VI, Federal retirement and general government provisions, $11.1 billion, including:

- savings will come from adjustments to Federal employee retirement systems; and
- the surcharge on patent fees will be extended through FY 2002.

Title VII, Medicaid, $163.4 billion (for related debate, see vote Nos. 502, 513, 518, 528, 532-533, 539, 542, and 554), including:

- Medicaid will be made into a block grant program;
- spending on Medicaid will increase by 5.2 percent per year for each of the next 7 years;
- States will be required to continue spending at least 85 percent of the amounts they spent during FY 1995 on pregnant women and children, the elderly, and the disabled (see vote No. 518 for related debate);
- Medicaid funding of abortions will be prohibited except to save the life of the mother or in cases of rape or incest (see vote No. 542; for related debate, see vote No. 539).

Title VIII, Medicare, $270 billion (for related debate, see vote Nos. 499-500 508, 510, 526-527, 524, 530, and 554-555), including:

- beginning in 1997, Medicare beneficiaries will be permitted to enroll in MedicarePlus plans operating within their geographic areas; MedicarePlus plan options will include coordinated care plans (such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs)), medical savings accounts (MSAs) coupled with high deductible plans, provider-sponsored organizations (for related debate, see vote No. 583), union plans, Taft-Hartley plans, association plans, and fee-for-service plans; beneficiaries will be able to stay in the existing fee-for-service program; CBO estimated savings: $26.9 billion;
- payment rates will be increased in rural, low-rate counties that are disadvantaged by the current payment formula;
- Medicare secondary payer status will be made permanent for disabled beneficiaries with employer-provided insurance;
- Medicare's planned average annual rate of growth for the next 7 fiscal years will be 6.8 percent; average spending per beneficiary will grow 7.7 percent per year;
- changes will be made to improve access to rural areas;
- provisions will be enacted to curb waste, fraud, and abuse (for related debate, see vote Nos. 500 and 510); CBO estimated savings: $3.5 billion;
- indirect medical education payments and direct medical education payments will be reduced; CBO estimated savings: $9 billion;
- Medicare Part A changes include that reductions will be made in inflation updates for prospective payment system (PPS) hospitals for savings of $39.1 billion; total Part A CBO estimated savings: $62.5 billion;
- Medicare Part B (the voluntary portion of Medicare) changes will include the following: the premium will remain at 31.5 percent (in other words, the Federal subsidy will remain at 68.5 percent) for savings of $48.6 billion; and the subsidy will be phased out for high income taxpayers for savings of $8.5 billion; total Part B CBO estimated savings: $109.1 billion;
- fail-safe budget mechanism: within the fee-for-service Medicare Program, spending growth rates will be set for overall spending and for particular provider categories such as inpatient hospital services, physician services, home health care, durable medical equipment, and laboratory services; if the overall growth rate is exceeded in a year, those particular categories that exceeded their permissible growth rates will have their payment updates reduced; CBO estimated savings: $36.6 billion;
- lockbox: most Medicare spending is from Medicare trust funds; at current rates of spending growth, Medicare's trust funds will be totally depleted by 2002; reducing the rate of growth in Medicare spending will slow the depletion of the trust funds, increasing Medicare's solvency; some Medicare spending (for Part B) is provided not from trust funds but as a public subsidy from the general

fund of the Treasury; reducing Part B spending, therefore, does not automatically keep the amount of the reduction in the Medicare Program; therefore, this conference report contains a "lockbox" provision that will transfer from the general fund to the Medicare Part A trust fund an amount equal to the savings that will result from lowering the subsidies for Part B; as a result, all $270 billion in savings from a lower rate of growth in Medicare spending will end up in the Medicare trust funds.

Title IX, Transportation, $792 million, including:

- highway minimum allocation funds will be reduced (though this reduction will not result in any State receiving less minimum allocation funds than it is due under the Intermodal Surface Transportation Efficiency Act (ISTEA)).

Title X, Veterans, $6.7 billion, including:

- the *Gardner* v. *Brown* decision will be overturned.

Title XI, Net tax relief of $227 billion will be provided (this figure includes $245 billion in tax relief minus the net cost of reforming tax expenditure provisions, including by amending current tax law to prevent tax avoidance by expatriating). In FY 1996, 88 percent of the tax relief will go to families with incomes of less than $100,000, and 72 percent will go to families earning under $75,000. Provisions include the following:

- a $500 nonrefundable tax credit effective October 1, 1995 will be provided for children under age 18; it will phase out for couples with incomes between $110,000 and $130,000 and will phase out for single tax filers with incomes between $75,000 and $95,000; this provision will provide $147.6 billion in tax relief over 7 years (for related debate, see vote No. 514);
- the standard deduction amount for married couples will be increased gradually over 10 years to 200 percent of the single deduction amount; for filers who do not itemize, this provision will virtually eliminate the marriage penalty in the tax code; the tax relief this provision will provide to married couples will be $8 billion over 7 years;
- a nonrefundable adoption credit will be provided that will allow the exclusion of up to $5,000 in adoption costs; the credit will be phased out between the taxable income levels of $75,000 and $115,000 for both individuals and couples; the tax relief from this provision over 7 years will be $1.95 billion;
- an above-the-line deduction of up to $2,500 per year for higher education interest expenses will be provided; the deduction will phase out for single filers between $45,000 and $65,000 of taxable income, and for joint filers between $65,000 and $85,000; the tax relief provided over 7 years from this provision will be $1 billion;
- an above-the-line deduction of $1,000 will be provided for the in-home care of a dependent parent or grandparent; the tax relief provided over 7 years from this provision will be $833 million;
- tax relief will be enacted for individual retirement accounts (IRAs), including: by increasing the gross income phase-out rates; by allowing up to $2,000 tax-free contributions for IRAs for homemakers; by allowing penalty-free withdrawals for first-time home buyers, medical expenses, college expenses, and periods of unemployment; and by allowing back-loaded IRAs (in general, funds in such IRAs are taxed on deposit instead of on withdrawal); IRA tax relief will total $11.75 billion over 7 years;
- for individuals, there will be a 50 percent capital gains tax deduction for assets held more than 1 year (except for collectibles), though the current 28-percent maximum rate will not apply; thus, the highest effective tax rate will be 19.8 percent (which is half of the highest tax rate of 39.6 percent); the tax relief provided from this provision will be $33.5 billion over 7 years (for related debate, see vote No. 548);
- for family-owned businesses and farms, the first $1 million of an estate will be exempt from the estate tax, and on the next $1.5 million the tax will be reduced by 50 percent; the tax relief provided by this section will be $4.56 billion over 7 years (for related debate, see vote No. 546);
- long-term care insurance will be treated like medical insurance under the tax code; this provision will give individuals $6.8 billion in tax relief over 7 years;
- other tax relief provisions: corporate capital gains tax reform will provide $6.8 billion in tax relief; reform of the Alternative Minimum Tax will provide $16.29 billion in tax relief; various tax expenditure reforms will be made that will increase revenues by more than $20 billion; and the amount of a self-employed individual's health insurance that may be deducted will be increased to 50 percent (for related debate see vote No. 515).

Title XII, Welfare reform, Earned Income Credit reform, asset sales, other:

- the Earned Income Credit (EIC) will be reformed by limiting eligibility to families with children, by limiting its rate of growth, by passing anti-fraud provisions, and by denying the credit to individuals with high amounts of unearned income; total savings in outlays and revenues will be approximately $32.4 billion (for related debate, see vote No. 501);
- welfare reforms provisions will be enacted, including: the Aid to Families with Dependent Children (AFDC) program will be turned into a block grant program with individual eligibility lifetime limits and with a State opt-out family cap; access to welfare benefits will be restricted for legal and illegal aliens; child care funding will be increased; and reforms will be made to the Food Stamp Program, Supplemental Security Income Program, and child nutrition programs; and
- excess materials from the National Defense Stockpile will be sold.

Those favoring passage contended:

This conference report is yet the latest battle to save our country from short-term insolvency. The first and most important battle for the long-term future of our country, to pass a balanced budget amendment to the Constitution, was lost by one vote, but every fight since then has been won. During the balanced budget amendment debate, Senate Democrats gave stirring speeches that all that was needed was courage to make the hard choices. Democrats, with the vote of one Republican, defeated that amendment. The next battle was on the balanced budget resolution. Despite dozens of Democratic amendments to increase spending and the deficit, Republicans held firm and passed that proposal. The next fight was to meet the reconciliation targets. Republicans produced a bill that not only met its targets by restraining spending only, it resulted in a surplus from getting to balance from the resulting lower interest payments. Republicans gave that money back to middle-class, American families. Democrats, of course, had numerous proposals to spend that money instead on their favorite welfare proposals, and they viciously demagogued Republican provisions to reduce the rate of growth in entitlement spending, but again they lost. This history brings us to the bill before us--the balanced budget act conference report, which resolves differences between the Senate and the House on how to reconcile revenues and direct spending to meet the budget resolution targets. The substance, and thus the debate, on this conference report has not changed from the earlier debate on the balanced budget reconciliation bill.

First, the need is the same. By 2006, if we stay on the present spending path, Social Security, Medicare, Medicaid, Federal retirement, and interest on the debt will consume all Federal spending. Nothing will be left over for defense, welfare, agriculture, transportation, eduction, parks, or any other function on which the Government spends money. This path assumes that more money will be diverted to Medicare, which will be totally insolvent by 2002 unless reforms are enacted.

The answer, too, is the same. Though many of our Democratic colleagues have repeatedly said that they want to raise taxes again, we think that the American people are taxed too much already. We have proposed, instead, to slow the rate of growth of the Federal Government to 3 percent per year, which is at about the rate of inflation. For some programs, like Medicaid and Medicare, we will allow growth at substantially greater rates, and we will at the same time enact long overdue reforms. This proposal is unique in that it actually addresses the problem of runaway entitlement spending. Previous efforts to balance the budget have tended to promise cuts in future years in discretionary programs and when that future has arrived have instead increased spending and taxes.

The benefits from passing an honest balanced budget act, using Congressional Budget Office estimates, are also the same. First, the United States will have to pay less in interest payments on its debt. This bill will give those savings back to middle-class taxpayers in the form of tax relief. Democrats have shamelessly claimed that the $245 billion in tax relief in this bill is for the "rich" even though they know that almost all of it (approximately 90 percent in fiscal year 1996) will go to Americans earning less than $100,000 per year. Democrats are very upset that we did not let them spend this money on welfare instead, but we have no intention of relenting on this point. Democrats social redistribution policies have spent more than $5 trillion on welfare in the past 3 decades, and the result is that the number of poor people has grown astronomically, with the majority of welfare recipients being women with illegitimate children. As the benefits have become more generous, more women have gone on welfare, and the tax burden on remaining working families has grown. In 1960, the illegitimacy rate was less than 5 percent. In a few years, it is expected to exceed 50 percent. This bill, for once, will side with America's working families.

The second main benefit of balancing the budget by slowing the growth in Federal spending is that it will result in lower interest rates for private citizens. The most conservative estimates we have seen are that rates will drop by 1.7 percent. This large drop will translate into thousands of dollars in savings on every home mortgage, and will result in huge savings on car payments, education bills, credit cards, and every other interest payment.

By this point, most Members, both Democrats and Republicans, clearly understand the unsustainability of the current rate of growth in Federal spending. Though many Democrats are calling for tax increases, they understand that tax increases alone cannot do the job. Nevertheless, Democrats are still not seriously engaged in this debate. The blame lies with President Clinton. He has yet to submit a serious budget proposal. His first two plans were not balanced budget plans at all--they were sketches of kindergarten quality. The last plan was only 21 pages long, and 7 of those pages were charts. The budget cannot be balanced with vague promises--President Clinton is going to have to show some courage and say exactly where he is willing to cut spending.

Though Senate Democrats unanimously rejected both of the President's proposals, they are in a bind. President Clinton has shown no willingness to compromise. If they work on their own to find a compromise with Republicans, it is likely that he will veto it. They will be then put in the very uncomfortable position of having to vote against their party's leader on a veto override that would destroy his reelection chances. Most Democrats are not now willing to go against President Clinton. Thus, they are helpless in this impasse. If he continues to refuse to negotiate, though, they may eventually have to go against him for the good of the country.

Those opposing passage contended:

This conference report will balance the Federal budget on the backs of the poor, the old, the disabled, children, and other helpless members of society. Harsh, reckless cuts will be made in Medicare and Medicaid, the earned income credit will be slashed, farm programs will be gutted, environmental laws will be brushed aside, and, to top off this nightmare, billions of dollars in tax breaks will be given to rich Americans. Nearly every page of this conference report contains some new heartless feature. Voting for this bill will bring misery to millions of needy citizens across America who rely on Federal care. A more misplaced set of priorities could not be designed. This conference report is every bit as bad as the Senate-passed bill, and should therefore be rejected.